

COMMENTS OF THE SAN FRANCISCO PUBLIC UTILITIES COMMISSION
TO THE STATE WATER RESOURCES CONTROL BOARD
BAY DELTA WORKSHOP NO. 4

JULY 13, 1994

The Public Utilities Commission of the City and County of San Francisco (San Francisco) offers the following comments to the SWRCB's key issues in this Fourth Workshop.

Issue No. 1. What fish and wildlife standards should the SWRCB evaluate as alternatives in this review?

As a member of the California Urban Water Agencies (CUWA), San Francisco supports the comments offered by CUWA. To this end, San Francisco believes that the SWRCB should consider fully the alternative presented by CUWA which is intended to provide an equivalent level of protection to that standard proposed by the Environmental Protection Agency (EPA) with a reduced water cost. CUWA's proposal seeks to provide both environmental and economic advantages over the EPA proposal. CUWA continues to refine its proposal and we are supportive of the request for an additional workshop in August, or as soon thereafter as possible, to present additional information to the SWRCB concerning the proposed standard.

Issue No. 2. How should the economic and social effects of alternative standards be determined?

San Francisco urges the SWRCB to convene a workgroup of economists and other interested parties to discuss how the economic and social effects of the alternative standards should be determined. It is our understanding that the SWRCB will be seeking to coordinate its economic review with the EPA which is required to develop a Regulatory Impact Analysis (RIA). San Francisco's economists are working with the EPA in the development of the RIA and in our view this cooperation should extend to the economic analysis being performed by SWRCB.

The question of economic impact is significant. San Francisco is in the process of finalizing an analysis of economic impacts to its commercial and industrial customers as a

result of water shortages. While the study is not yet available for public review, San Francisco recently testified before the Senate Energy and Natural Resources Committee's Subcommittee on Water and Power (Senator Bradley) on the estimated impacts of water shortages in the 15 and 30 percent range.

Using the two accepted methodologies for quantifying economic loss due to a water supply shortage, that is, an estimate of "welfare loss" and "production loss," the analysis has defined a range of economic loss estimated for the commercial and industrial sectors within San Francisco's water service area. (San Francisco supplies water to 2.3 million Bay Area residents in the counties of Alameda, Santa Clara, San Mateo and San Francisco.)

The production loss associated with a 15 percent water shortage is estimated at \$583 million per year in terms of the San Francisco service area's gross domestic product (gdp); at 30 percent the production loss increases to \$4.9 billion per year in lost gdp. The production loss analysis assumes each customer will be required to reduce their water consumption by the percentage required, regardless of willingness or ability to pay for the water. While this approach is economically inefficient for curtailing consumption, it is the method water utilities relied upon during the last drought.

The alternative method for estimating impacts of shortages is through a welfare loss calculation. Under this methodology, an assumption is made that water utilities would attempt to achieve the desired consumption cutback through price increases, and customers with a higher value for water would be allowed to purchase all they require. Because this methodology assumes an economically efficient allocation of the resource, the impact measured on a per acre foot basis is lower and varies less among the different industry groups than an across the board reduction in available supplies. The estimated welfare loss due to a 15% water shortage is \$35 million per year, and at a 30% shortage is \$218 million per year.

The purpose of submitting these estimates to the SWRCB at this time is to demonstrate that even when considering San Francisco's service area alone, the economic costs of shortages are substantial. Therefore, it is incumbent that the SWRCB undertake a thorough analysis of the economical impacts which are expected from its actions.